



Commonwealth of Massachusetts

Department of Revenue

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2001 Massachusetts Corporation Excise Return **Form 355**

Schedules and Instructions

General Information

This booklet contains Form 355 and most schedules needed to complete your Massachusetts corporation excise return. This booklet also includes an Application for Extension of Time to File, Form 355-7004.

Instructions for **Schedule E-2**, **Schedule F** and **Form 355-7004** are provided separately on those schedules.

Major Tax Law Changes for 2001

Note: Beginning in tax year 2001, Form 355, Business or Manufacturing Corporation Excise Return, replaces Form 355A, Domestic Business or Manufacturing Corporation Excise Return and Form 355B, Foreign Business or Manufacturing Corporation Excise Return. Taxpayers will now indicate if they are a domestic or foreign taxpayer in the registration area of the return.

Credit Recapture. Placement of the credit recapture line for the Investment Tax Credit, Economic Opportunity Area Credit, and Brownfields Credit has changed. The repositioning of this line allows the taxpayer to add the amount of credit being recaptured to the current year's excise. Current year credits can then be used to offset the total excise due which will include the recapture amount. All statutory limitations on any credits being used to offset this amount still apply.

For further information, see Department of Revenue Directive 01-9.

Low-Income Housing Credit. A new Low-Income Housing Credit is available beginning in tax year 2001. This credit is administered through the Massachusetts Department of Housing and Community Development (DHCD). The low-income housing credit is available to taxpayers that claim a federal credit for the construction or development of low-income housing. The state credit is taken over five years, and the amount of credit a taxpayer may claim for a qualified Massachusetts project is allocated by the DHCD, and is based on a total pool of money awarded to the Commonwealth. In order to claim the credit, a copy of the eligibility statement issued by DHCD must be attached to the return.

Who Must File and Pay Corporate Excise?

The purpose of the corporate excise is to require payment for the right granted by the laws of the Commonwealth to exist as a corporation and for the enjoyment under the protection of the Commonwealth's laws of the powers, rights, privileges and immunities derived by reason of the corporate form of existence and operation. The corporate excise is due and payable when any of the following conditions are met:

- the corporation actually does business within the Commonwealth;
- the corporation exercises its charter within the Commonwealth;
- the corporation owns or uses any part of its capital, plant or other property in the Commonwealth; or
- the corporation owns and/or rents real or tangible personal property as a lessor in Massachusetts even without having a usual place of business here.

Corporations which must file and pay corporate excise include any corporation which:

- is organized under, or subject to, Chapters 156, 156A, 156B or 180 of Massachusetts General Laws (MGL); or

- has privileges, powers, rights or immunities not possessed by individuals or partnerships.

The following corporations are not obligated to file:

- corporations organized under the provision of Ch. 157, sec. 10; or
- corporations exempt from taxation under the provisions of IRC sec. 501.

Which Form Should Be Filed?

Businesses which are incorporated under the laws of the Commonwealth or businesses doing business in Massachusetts but incorporated elsewhere should file **Form 355**.

A corporation organized in Massachusetts is eligible to use the simpler **Form SBC** if it met all of the following conditions during the taxable year:

- had gross receipts or sales, and total income under \$500,000;
- had 100% of its net income taxable in Massachusetts and was not subject to corporate tax in another state;
- determines its tangible or intangible classification as a domestic corporation;
- was not a DISC, an S corporation or a security corporation;
- is not claiming any credits, special deductions or adjustments against its Massachusetts corporate excise; and
- does not own 50% or more of the voting stock of another corporation and did not have 50% or more of its voting stock owned by another corporation.

The Department of Revenue also has the following tax forms to meet the unique filing needs of combined filers, security corporations and S corporations.

Corporations which are incorporated under the laws of the Commonwealth or corporations doing business in Massachusetts but incorporated elsewhere which are participating in a combined report of their net income to Massachusetts must file **Form 355C**.

Corporations engaged exclusively in buying, selling, dealing in or holding securities on their own behalf and not as brokers must file **Form 355SC**.

S corporations which are incorporated under the laws of the Commonwealth or S corporations doing business in Massachusetts but incorporated elsewhere should file **Form 355S**.

Corporations amending an originally filed corporation excise return with respect to Federal Net Income should file Form CA-6, Application for Abatement/Amended Return.

Note: Under Massachusetts law, all corporations registered in the Commonwealth are required to file an Annual Report form with the Secretary of State on or before the 15th day of the third month after the close of their fiscal year. The annual report filing fee is \$85. Annual Report forms can be obtained by calling (617) 727-9440. A late fee of \$25 will be assessed to any report which is filed late. For further information on this requirement, call the Secretary of State's Corporate Information Line at (617) 727-9640.

What Is Nexus for Massachusetts Corporate Excise Purposes?

A corporation that owns or uses any part of its capital or other property, exercises or continues its charter or is qualified to, or is actually doing business in Massachusetts has nexus with the Commonwealth and must pay a corporate excise. The term “doing business” as defined in MGL Ch. 63, sec. 39 includes:

- the maintenance of a place of business;
- the employment of labor;
- the buying, selling or procuring of services or property;
- the execution of contracts;
- the exercise or enforcement of contract rights; and
- each and every act, power, right, privilege, or immunity exercised or enjoyed in the Commonwealth, as an incident to or by virtue of the powers and privileges acquired by the nature of such organizations, as well as, the buying, selling or procuring of services or property.

Public Law (PL) 86-272 excludes from state net income-based taxation those interstate activities constituting mere solicitation of orders for sales of tangible personal property filled by shipment or delivery from a point outside Massachusetts after orders are sent outside the state for approval or rejection (15 IRC sec. 381(a)).

The following are activities that ordinarily fall within the scope of “solicitation” under PL 86-272:

- activities including advertising related to generating retail demand for the products of a manufacturer or distributor by promoting the products to retailers who order the products from a wholesaler or other middleman;
- carrying samples only for display or for distribution without charge or other consideration;
- owning or furnishing automobiles to sales representatives, provided that the vehicles are used exclusively for solicitation purposes;
- passing inquiries and complaints on to home office;
- incidental and minor advertising;
- checking customers’ inventories for reorder only;
- maintaining a sample or display area for an aggregate of fourteen calendar days or less during the tax year, provided that no sales or other activities inconsistent with solicitation take place;
- soliciting of sales by an in-state resident representative who maintains no in-state sales office or place of business; and
- training or holding periodic meetings of sales representatives.

For further information on corporate nexus, refer to Regulation 830 CMR 63.39.1.

What Are the Differences Between the Massachusetts Corporate Excise and the IRC?

Gross income for corporate excise purposes is the same as that defined under the IRC, as amended and in effect for the taxable year, with the following additions:

- interest from the bonds, notes and evidences of indebtedness of any state, including Massachusetts.

Net income is gross income less the deductions, but not the credits, allowable under the U.S. IRC. The following deductions, however, are not allowed:

- dividends received (See Schedule E-1 instructions); and
- taxes on or measured by income, franchise taxes measured by net income, franchise taxes for the privilege of doing business and capital stock taxes imposed by any state or U.S. territory.

The deduction for losses sustained in other taxable years is allowed subject to certain restrictions. See Schedule E-2 for further information.

DOR and the IRS maintain an extensive exchange program, routinely sharing computer tapes and audit results. Discrepancies between income and deductions reported federally and on this return, except those allowed under state law, will be identified and may result in a state audit or further investigation.

If the corporation is the parent of a wholly-owned DISC, the federal net income of the parent shall be reported to Massachusetts with no allocation of income, deductions, assets or liabilities made to the DISC. The DISC income, which must be included in the parent’s return, must be for the same taxable year or the taxable year immediately following the close of the parent’s taxable year. DISCs which are not wholly-owned, either directly or indirectly, are taxable as regular business corporations.

Massachusetts generally adopts the IRC treatment of transactions between FSCs and shareholder corporations. For additional information see 830 CMR 63.38G.2.

Are There Special Tax Credits Available In Massachusetts?

Yes. Massachusetts offers several special credits and deductions to corporations.

Under MGL Ch. 63, sec. 32C, a corporation’s credits may not offset more than 50% of its excise. Any credits not utilized as a result of this provision may be carried over for an unlimited number of years. This provision does not apply to the Research Credit, the Harbor Maintenance Tax Credit, Brownfields Credit, Low-Income Housing Credit and the Full Employment Credit.

Investment Tax Credit

Manufacturing corporations and corporations engaged primarily in research and development, agriculture or commercial fishing are allowed a credit of 3% of the cost of depreciable real and tangible property. Such property must have a useful life of four years or more or a recovery period of three years or more. The property must be used and located in Massachusetts on the last day of the taxable year. A corporation cannot take the credit on property which it leases to another. A corporation can take the credit on property which it leases from another (for property leased and placed in service on or after July 1, 1994). Generally, eligible corporate lessees making qualifying leasehold improvements may claim the credit. The credit may be claimed by completing Schedule H.

Note: Motor vehicles and trailers acquired on or after January 1, 1988 and subject to the motor vehicle excise do not qualify for the Investment Tax Credit.

A corporation may carry over to the next succeeding three years any unused portion of its Investment Tax Credit. This carryover may be taken by completing Schedule H.

Vanpool Credit

Foreign and domestic corporations are allowed a credit of 30% of the cost incurred during the taxable year for the purchase or lease of company shuttle vans used in the Commonwealth as part of an employer-sponsored ridesharing program. The shuttle vans must be used for transporting employees and students from their homes, or public transportation facilities, to their places of employment or study.

To claim the Vanpool Credit, Schedule VP must be completed. This credit is reconciled with your other credits on Schedule H and claimed in line 8 of the excise calculation.

Solar or Wind Power Deduction

A deduction is allowed for expenditures paid or incurred during the year for solar or wind power climate control or water heating units. Expenditures for ancillary units are not allowed. The equipment must be certified by the Office of Facilities Management, Division of Capital Planning, (617) 727-4030.

This deduction should be taken in line 17 of Schedule E.

Economic Opportunity Area Credit

A credit of 5% of the cost of qualifying property purchased for business use within an Economic Opportunity Area (EOA) is available to businesses. To qualify for the EOA credit, the property must be eligible for the 3% ITC and used exclusively in a certified project in an EOA. However, a 3% ITC and 5% EOA credit cannot be claimed with respect to the same property. A certified project is a project that has been approved by the Economic Assistance Coordinating Council (EACC). Any business that participates in a certified project located in an EOA, is eligible to take the credit.

The 5% EOA credit cannot offset more than 50% of the excise due nor reduce the excise below the minimum tax. Any unused credit may be carried forward for ten years.

To claim the credit, Schedule EOA must be completed. This credit is reconciled with your other credits on Schedule H and claimed in line 6 of the excise calculation.

Research Credit

A deduction is allowed for corporations which have incurred basic research payments and/or qualified research expenses for research conducted in Massachusetts during the taxable year. A corporation taking the research credit is allowed to deduct from excise:

- 100% of the first \$25,000 of excise; and
- 75% of any amount of excise remaining after the first \$25,000.

The credit is available for expenses incurred on or after January 1, 1991.

The deduction allowed to a corporation for any expenses which qualify for the credit must be reduced by the amount of the credit claimed for the taxable year.

Any corporation which is a member of a combined group may share excess research credits with other members of the combined group. Corporations which are members of a controlled group or which are under common control with any trade or business (whether or not incorporated) are treated as a single taxpayer for purposes of determining the allowable Research Credit.

See Schedule RC or Schedule RC-A instructions for further information. To claim the Research Credit, Schedule RC or Schedule RC-A must be completed and the amount entered in line 10 of the excise calculation.

Harbor Maintenance Tax Credit

Corporations are allowed a credit against the corporate excise for certain harbor maintenance taxes paid to the U.S. Customs Service pursuant to IRC sec. 4461. A corporation is eligible for the credit if the tax paid is attributable to the shipment of break-bulk or containerized cargo by sea- and ocean-going vessels through a Massachusetts harbor facility.

The credit is not subject to the 50% limitation; however, it may not reduce the tax to less than the minimum excise of \$456. A taxpayer may carryover any excess credit to any of the next succeeding five taxable years.

See Schedule HM instructions for further information. To claim the Harbor Maintenance Tax Credit, Schedule HM must be completed and the amount entered in line 11 of the excise calculation.

Full Employment Credit

Corporations who participate in the Full Employment Program and continue to employ a participant for at least one full month after any Full employment Program subsidy has expired may claim the Full Employment Credit. A qualified employer may claim a credit equal to \$100 per month of eligible employment per participant with a maximum credit of \$1,200 per participant. Qualified participants and employers are those who participate in the Full Employment Program under the rules of the Department of Transitional Assistance.

The credit is not subject to the 50% limitation; however, it may not reduce the tax to less than the minimum excise of \$456. A taxpayer may carryover any excess credit to any of the next succeeding five taxable years.

See Schedule FEC instructions for further information. To claim the Full Employment Credit, Schedule FEC must be completed and the amount of the credit entered in line 12 of the excise calculation.

Brownfields Tax Credit

Taxpayers are allowed a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area.

See Schedule BC instructions for further information. To claim the Brownfields Credit, Schedule BC must be completed. The amount of the credit is entered in line 13 of the excise calculation.

Low-Income Housing Credit

See the Major Tax Law Changes for 2001 section on page 2 of the instructions for information on this credit.

To claim the Low-Income Housing Credit, the Eligibility Statement issued by the Department of Housing and Community Development must be completed and attached to the return. This credit is claimed in line 14 of the return.

For further information regarding this credit, contact the Department of Housing and Community Development, Division of Private Housing, at (617) 727-7827.

Are Combined Returns Allowed?

Yes. If two or more corporations, either domestic or foreign, participate in filing a consolidated return to the U.S. government, they may elect to file a combined return of their net income in Massachusetts.

For more information, refer to 830 CMR 63.32B.1 and Massachusetts Combined Corporation Excise Return, Form 355C.

What If a Corporation's Taxable Year Is Less Than 12 Months?

Corporations whose taxable year is less than twelve calendar months may determine their excise by prorating calendar months for the non-income measure of the excise only. Schedules should be attached to explain any prorating computations.

A corporation may never pay less than the \$456 minimum excise on a return, and this amount can never be prorated as Massachusetts law makes no provision for the proration of the minimum excise.

When Are Returns Due?

Corporate excise returns, together with payment in full of any tax due, must be filed on or before the 15th day of the third month after the close of the taxable year, calendar or fiscal.

An extension of time for filing returns will be granted for reasonable cause upon request. In order to request an extension, a corporation must file Form 355-7004 on or before the normal due date of the return and pay in full the estimated tax due.

Note: An extension of time to file is not valid if the corporation fails to pay at least 50% of the total tax liability or the minimum tax of \$456, whichever is greater, through estimated payments or with Form 355-7004.

Any tax not paid on or before the due date — without regard to the extension — shall be subject to an interest charge.

What is a Proper Return?

A proper return is a return upon which all required amounts have been entered in all appropriate lines on all forms. Data sheets, account forms or other schedules may be attached to explain amounts entered on the forms. Referencing lines to attachments in lieu of entering amounts onto the return is not sufficient.

A properly filed return must also include exact and complete copies of all four pages of the corporation's U.S. Form 1120. Copies of all accompanying schedules and supplemental statements (e.g. Cost of Goods, Amortization, Other Income, Other Deductions, etc.) must be attached.

Should the Corporation Be Making Estimated Tax Payments?

All corporations which reasonably estimate their corporate excise to be in excess of \$1,000 for the taxable year are required to make estimated tax payments to the Commonwealth. Corporations making estimated payments must use Form 355-ES to make their payments. Estimated taxes may be paid in full on or before the 15th day of the third month of the corporation's taxable year or in four installment payments according to the schedule below.

<u>Installment no.</u>	<u>Pct. of estimated tax due</u>	<u>Due date from start of taxable year</u>
1	40%	15th day of 3rd month
2	25%	15th day of 6th month
3	25%	15th day of 9th month
4	10%	15th day of 12th month

Note: New corporations in their first full taxable year with less than 10 employees have different estimated payment percentages — 30%, 25%, 25% and 20% respectively.

Special Optical Character Readable payment vouchers are mailed to all corporations which have made estimated payments or should be making estimated payments.

Participation in Electronic Funds Transfer (EFT) of estimated tax payments is required for all business and manufacturing corporation excise tax filers whose annual corporate excise tax liability exceeds \$250,000. For further information, please call the Department's Automated Processing Bureau at (617) 887-5020.

To avoid a possible underpayment penalty on its taxes, a corporation should, when filing its first voucher on Form 355-ES, estimate its tax to be at least equal to the prior year's tax. If the prior year's tax was the minimum tax, the corporation should make a payment or payments equal to the minimum tax to safeguard against a possible underpayment penalty.

Note: Any corporation having \$1 million or more of federal taxable income in any of its three preceding taxable years (as defined in IRC sec. 6655(g)) may only use its prior year tax liability to calculate its first quarterly estimated tax payment. Any reduction in the first installment payment that results from using this method must be added to its second installment payment.

For more information on corporate estimated taxes, refer to 830 CMR 63B.2.2, and MGL Ch. 63B.

Schedule Instructions

Registration Information

Check "Domestic" if the corporation is incorporated in Massachusetts. Check "Foreign" if incorporated elsewhere.

Enter the corporation's federal business code and federal identification number to the right of the corporation name box.

Line 2

If line 2 is "Yes" **do not file this form**. Corporations filing a combined Massachusetts return must file Form 355C.

Line 3

The apportionment factor for corporations engaged in substantial manufacturing (section 38 manufacturers) is 100% of sales.

A corporation is a section 38 manufacturer for any taxable year if it is engaged in manufacturing during the taxable year and its manufacturing activity during the taxable year is substantial. This applies whether the corporation is a domestic manufacturing corporation under MGL Ch. 63, sec. 38C or a foreign manufacturing corporation under MGL Ch. 63, sec. 42B, and regardless of whether the corporation is classified as a manufacturing corporation under MGL Ch. 58, sec. 2 and Massachusetts Regulation 830 CMR 63.58.2.1.

A corporation's manufacturing activity is substantial for any taxable year if the corporation meets any of the following tests:

- The corporation derives twenty-five percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation pays twenty-five percent or more of its payroll for the taxable year to employees working in manufacturing operations and derives fifteen percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses twenty-five percent or more of its tangible property in manufacturing during the taxable year and derives fifteen percent or more of its receipts for the taxable year from the sale of manufactured goods that the corporation manufactures; or
- The corporation uses thirty-five percent or more of its tangible property in manufacturing during the taxable year.

Effective January 1, 1997, mutual fund service corporations are required to attribute their mutual fund sales to Massachusetts based on the domicile of the shareholders in the fund. Effective July 1, 1997 mutual fund service corporations are allowed to apportion their net income from mutual fund sales based solely on their sales factor. However, in order to use the single sales factor apportionment method a mutual fund service corporation must increase its workforce in Massachusetts by 5% a year for five years based on the 1996 employment level unless adverse economic conditions exist. Taxable net income not derived from mutual fund sales is apportioned according to the statutory three factor method.

A corporation is a mutual fund service corporation if it derives more than fifty percent of its gross income from providing, directly or indirectly, management, distribution or administration services to or on behalf of a regulated investment company, and from trustees, sponsors and participants of employee benefit plans which have accounts in a regulated investment company.

The Department has issued further guidance on apportionment for mutual fund service corporations; see Massachusetts Regulation 830 CMR 63.38.7.

If a corporation is qualified as a section 38 manufacturer or is a mutual fund service corporation, check the applicable box and complete Schedule F, Income Apportionment, accordingly. Section 38 manufacturers and mutual fund service corporations must also complete and attach Form F-2. Form F-2 is available at www.mass.gov/dor or any Department of Revenue location.

The Department has issued further guidance on apportionment; see Massachusetts Regulation 830 CMR 63.38.1.

Line 4

A domestic business qualifies as an R & D corporation only if: its principal activity is research and development; more than $\frac{2}{3}$ of its total receipts for the taxable year are derived from research and development; and more than $\frac{1}{3}$ of its receipts for the taxable year are derived from the research and development of tangible personal property capable of being manufactured in the Commonwealth.

A foreign business qualifies as an R & D corporation only if: its principal activity is research and development; more than $\frac{2}{3}$ of its total receipts assignable to Massachusetts (for the taxable year) are derived from research and development; and more than $\frac{1}{3}$ of its receipts assignable to Massachusetts (for the taxable year) are derived from the research and development of tangible personal property capable of being manufactured in Massachusetts.

If you are a classified manufacturer, you must have filed Form 355Q and had your manufacturing status approved by the commissioner.

A Regulated Investment Company (RIC) must file an informational return and may do so by filing Form 355 or 355SC. The Excise, Balance Due and Refund lines should be left blank and "RIC-Informational Return" must be written across the front of the return.

Line 7

If your corporation has undergone a federal audit for some prior year, you must report any changes to Massachusetts on Form CA-6, Application for Abatement/Amended Return. You must report any federal audit changes within three months after the final determination of the correct taxable income by the IRS. Otherwise, you will be subject to a penalty. Answering line 7 does not relieve the corporation from this filing obligation.

Line 9

Domestic and foreign insurance mutual holding companies are subject to the corporate excise as business corporations but are not required to pay the portion of tax based on the value of their tangible property or net worth (i.e., the non-income measure of the excise). The corporate excise tax for an insurance mutual holding company is the greater of 9.5 percent of its net Massachusetts income in Massachusetts or the minimum excise tax of \$456.

Line 10

If the corporation is requesting alternative apportionment under MGL Ch. 63, sec. 42, check the box in line 10 and attach Form AA-1. The return and Schedule F must be completed and the tax must be paid according to the statutory three-factor formula. However, alternative

treatment may be requested and a refund will be issued if such treatment is granted by the Commissioner of Revenue. For further information on alternative apportionment see MGL Ch. 63, sec. 42 or 830 CMR 63.42.1.

Line 12

Any corporation undergoing a voluntary dissolution should notify the DOR within 30 days of the vote to dissolve by writing to: Massachusetts Department of Revenue, Customer Service Bureau, PO Box 7010, Boston, MA 02204 or by calling (617) 887-MDOR.

Excise Calculation

In order to complete the excise calculation, all appropriate schedules must be filled out first. Therefore, schedule instructions precede the instructions for the excise calculation section. Use the whole dollar method.

Schedule A. Balance Sheet

Enter the closing amounts for the taxable year covered by this return. Once the corporation's balance sheet is completed, it will be easier to complete subsequent schedules.

Line 1a

Enter here the book value of all buildings. A portion of the cost attributable to buildings under construction and reported on the corporation's books as construction in progress (CIP) is considered real estate for purposes of the property measure of the corporate excise and must be reported in line 1a. Enter 100% of the corporation's real estate CIP costs, less 15% of the **current year's** accumulation.

Line 1j

The value of any certified solar/wind units for which a deduction is claimed this year should be entered here. Amounts of certified industrial waste and/or air pollution treatment facilities and certified solar/wind deductions claimed in any prior year should be included. In order to be eligible for this deduction, property must be certified by the appropriate state agencies and copies of such certificates must be attached to this return. See instructions for Schedule E, line 17.

Line 1k

Enter here the value of all tangible property reported on the corporation's books as CIP. In addition, enter here 15% of the **current year's** real estate CIP accumulation.

Line 2b

Enter here the value of inventory that is exempt from the tangible property measure of the excise. An example of exempt inventory is merchandise of foreign origin imported and immediately placed in a federally bonded warehouse. Merchandise of domestic origin is not exempt from the tangible property measure of the excise. A schedule listing the components of any entry in line 2b must be attached.

Line 12

In order to be a subsidiary, the parent must own at least 80% or more of the voting stock of a corporation in accordance with IRC sec. 1504. Include investments in capital stock. Advances should include payments in the nature of capital contributions. Do not include loans or other receivables. Attach a schedule for each applicable line listing the name, percentage of ownership, and amount of investments. Indicate whether the corporation is domestic or foreign. For line 12c, if the investment is in an entity other than a corporation, such as a partnership, list the type of entity.

Line 12a

Enter in line 12a the total of capital stock and equity contributions of foreign subsidiary corporations 80% or more owned not doing business in Massachusetts.

Line 12b

Enter in line 12b the total of capital stock and equity contributions of any subsidiary 80% or more owned not included in 12a.

Line 12c

Enter in line 12c the value of capital stock investments with less than 80% ownership and also any other investment entity such as a partnership.

Line 14

If the reserve for bad debt exceeds 2% of accounts receivable, attach a complete explanation to enable a review and determination of the proper amount allowable.

Line 17

Enter here the value of any assets not included in lines 1 through 16. Examples include, but are not limited to, goodwill and company patents.

Line 19a

Enter the value of mortgages on Massachusetts real estate, motor vehicles, machinery owned by a corporation which is not classified as a manufacturing corporation, and other tangible personal property located in Massachusetts and subject to local taxation. Mortgages do not include conditional sales, pledges or other types of security interest.

All items in Schedule A should be accompanied by a separate schedule if an explanation is required.

Corporate Disclosure Schedule

Massachusetts law requires all corporations to complete lines 1 through 3c on this schedule.

Schedules B, C and D. Tangible or Intangible Classification and Calculation of Non-Income Measure

Schedules B, C and D are used to calculate the non-income measure of the Massachusetts corporate excise. Schedule B is used to determine whether a corporation is a tangible or intangible property corporation. Once determined, tangible property corporations must complete Schedule C (and omit Schedule D) and intangible property corporations must complete Schedule D (and omit Schedule C). Net book values should be used in completing all schedules.

Schedule B

Schedule B is used to calculate whether a corporation is a tangible or intangible property corporation. The calculations done on lines 1 through 13 determine the property percentage as if the corporation is a domestic corporation. Completing the schedule through line 18 determines the property percentage as if it were a foreign corporation. The corporation is then allowed to choose the percentage from either line 13 or line 18. One of these two is entered on line 19. If line 19 is 10% or greater, complete Schedule C. If line 19 is less than 10%, complete Schedule D. The corporation may annually elect to calculate its non-income measure as a domestic or foreign taxpayer.

For line 14, enter the amount from Schedule A, line 12a plus from Schedule A, line 12b the total of any investments in foreign corporations not doing business in or registered in Massachusetts.

Schedule C

If a corporation's ratio, the — “tangible property percent” — is 10% or greater, the corporation must complete Schedule C using net book values to determine the non-income measure of the excise. Omit Schedule D.

Schedule D

Schedule D is used by a corporation to calculate its non-income measure excise on the basis of net worth. If line 19 of Schedule B is less than 10%, complete this schedule. Corporations are allowed to deduct the value of investments in, and advances to, Massachusetts and foreign subsidiaries. To be a subsidiary, the parent must own 80% or more of the voting stock of the corporation in accordance with IRC sec. 1504.

The corporation is allowed to annually change this election. The calculation as a domestic corporation is done on lines 1 through 9. To calculate net worth as a foreign corporation, continue through line 22. Enter the smaller of lines 9 or 22 on line 23.

Schedule E-1. Dividends Deduction

Massachusetts corporate excise law does not allow the dividends received deduction allowed under the IRC. However, a deduction is allowed for 95% of the value of all dividends received except:

- dividends from ownership of shares in a corporate trust engaged in business in the Commonwealth;
- dividends resulting from deemed or actual distributions (except actual distributions of previously taxed income) from a DISC which is not wholly-owned; or
- dividends from any class of stock if the corporation owns less than 15% of the voting stock of the payer corporation.

A schedule showing payers, amounts and percent of voting stock owned by class of stock must accompany Schedule E-1.

Schedule E-2. Loss Carryover Deduction

Instructions for Schedule E-2 can be found on Schedule E-2 in this booklet.

Schedule E. Taxable Income

Mutual fund service corporations eligible to apportion their income under MGL Ch. 63, sec. 38 (m) must complete two separate copies of Schedule E: (1) for income derived from mutual fund sales; and (2) for non-mutual fund sales income, if any. Taxable net income from mutual fund sales is gross income from mutual fund sales less: (1) any deductions directly traceable to its mutual fund sales; and (2) a portion of other allowable deductions. Other allowable deductions consist of deductions not directly traceable to mutual fund sales or non-mutual fund sales. To determine the deductible amount of its other allowable deductions a mutual fund service corporation must multiply the total amount of its other allowable deductions by a fraction, the numerator of which is the mutual fund service corporation's gross income derived from mutual fund sales for the taxable year and the denominator of which is the mutual fund service corporation's total gross income for the taxable year. Taxable net income from non-mutual fund sales consists of any taxable net income not derived from mutual fund sales.

If a corporation is not a mutual fund service corporation, 100% of sales, profits, and income should be entered in lines 1 through 9. If the corporation has income from business activities which is taxable both in Massachusetts and any other state, Schedule F should be completed and the apportionment percentage entered in line 15.

Line 4

Enter federal taxable income before deducting net operating loss or other special deductions. If the corporation is the parent of a DISC, income should be reported with no allocation to the DISC.

Line 5

Subtract from Schedule E, line 4 any allowable U.S. Wage Credit used in calculating U.S. Form 1120, line 13. Enter the result in line 5.

Line 6

Enter all interest received on state and municipal obligations not reported in federal net income.

Line 7

Massachusetts does not allow a deduction for state, local and foreign income, franchise, excise or capital stock taxes. Any such taxes which have been deducted from federal net income should be entered in line 7 and added back into income.

Line 8

Enter any adjustments to income not previously reported and attach a schedule explaining them. For example, enter in this line the amount of depreciation or amortization taken this year in computing federal net income for the following:

- certified industrial waste and/or pollution treatment facilities of prior years; or
- certified solar/wind units of current or prior years, if said facilities were sold during the year. (See MGL Ch. 63, sec. 38D(d) and sec. 38H(e) for further explanation.)

Capital gains on installment sales of intangible property made prior to 1963 may also be deducted from income. These gains fall under the provisions of prior Massachusetts law when such income was not taxable (see MGL Ch. 63, sec. 38(a)(2)). This adjustment should be made in line 8.

Deduct the full federal research credit generated provided that the full federal research credit was taken. If a reduced federal research credit was taken, no adjustments are necessary.

In the “Total tentative research credit” line of Schedule RC, add back the full Massachusetts research credit generated.

The deduction allowed to a corporation for any expense which qualifies for the Massachusetts Research Credit must be reduced by the Massachusetts Research Credit determined in the current taxable year. In addition, subsection (c) of IRC sec. 280C, which requires a similar reduction of the deduction, shall not apply in determining Massachusetts net income.

Line 10

Enter the total cost of renovating an abandoned building in an Economic Opportunity Area. Multiply this amount by 10% and enter here.

Line 11

Refer to Schedule E-1 for the allowable deductions for dividends. Dividends from a Massachusetts corporate trust, a non-wholly-owned DISC or a corporation of which less than 15% of the voting stock is owned are not deductible.

Line 13

Massachusetts allows two different loss carryover deductions. **A corporation may take only one of these deductions.** A complete schedule of federal loss carryback and carryforward computations should be attached. Instructions for loss carryover deductions can be found on Schedule E-2.

Line 15

If the corporation conducts business activities in another state sufficient to give that state the jurisdiction to tax the corporation, Schedule F should be completed in order to determine the apportionment percentage. If all business is conducted in Massachusetts, 100% should be entered in line 15.

Line 17

A deduction is allowed for expenditures paid or incurred during the taxable year for the installation of any solar or wind powered climate control or water heating unit. Ancillary units do not qualify.

In order to be eligible for this deduction, the property must be certified by the Office of Facilities Management. A copy of such certification must be submitted along with a schedule itemizing the:

- cost;
- allowable federal depreciation;
- date of installation; and
- place of installation.

If these amounts are prorated, the computation should be explained.

If eligible units do not continue in qualified use for ten years, the deductions previously allowed must be added back to taxable income. The computation of any such additional income should be explained in an attached schedule and the amount should be entered in Schedule E, line 8.

Note: The special deduction for the construction of certified industrial waste and/or air pollution treatment facilities does not apply to expenditures paid or incurred on or after January 1, 1980.

Schedule F. Income Apportionment

Instructions for Schedule F can be found on Schedule F in this booklet.

Schedule H. Investment Tax Credit and Carryovers

The Investment Tax Credit equals 3% of the cost or other federal basis of qualifying property less any U.S. Investment Tax Credit taken on such property (including any amount of federal credit on the property which is carried to another year, see TIR 87-2). To qualify for the credit, the property must be tangible personal property, buildings or structural components of buildings; and it must have been acquired, constructed, reconstructed, or erected during the taxable year. The property must also (a) be depreciable, (b) have been acquired by purchase pursuant to IRC sec. 179(d), (c) have a useful life of four years or more or a recovery period of three years or more, (d) be used in Massachusetts and (e) be situated in Massachusetts on the last day of the taxable year. A corporation cannot take the credit on property it leases to another. A corporation can take the credit on property it leases from another (for property leased and placed in service on or after July 1, 1994). Generally, eligible corporation lessees making qualifying leasehold improvements may claim the credit.

Part 1

To be eligible for the credit, a corporation must be (a) engaged in manufacturing during the taxable year, or primarily engaged in (b) agriculture, (c) commercial fishing, or (d) research and development. A corporation qualifies under (d) only if its principal activity is research and development and more than $\frac{2}{3}$ of its total receipts for the taxable year (or $\frac{2}{3}$ of receipts assignable to Massachusetts if a foreign corporation) are derived from research and development, and more than $\frac{1}{3}$ of its receipts for the taxable year (or $\frac{1}{3}$ of receipts assignable to Massachusetts if a foreign corporation) are derived from the research and development of tangible personal property capable of being manufactured in Massachusetts.

Part 2

Useful life of property is the same for Massachusetts purposes as for federal tax purposes.

For leased property the credit is based on the lessor's adjusted basis in the leased property (determined at the beginning of the lease term) multiplied by a fraction, the numerator of which is the number of days of the taxable year during which the lessor leases the property and the denominator of which is the number of days in the useful life of the property. Useful life is the period over which the lessor depreciates the leased property for federal tax purposes.

If property qualifying for the Investment Tax Credit is disposed of or ceases to be in qualified use during the year of purchase, the credit allowed is 3% of the federal basis of the property (less any U.S. Investment Tax Credit taken) multiplied by this formula:

$$\frac{\text{Months of qualified use}}{\text{Total months of useful life}}$$

Note: Corporations are required to submit a separate statement explaining the job opportunities created by the Investment Tax Credit. The statement must include both the number of new jobs created and/or existing jobs protected by the new investment. Include on the statement any other information considered to be pertinent to employment in Massachusetts.

Part 3

Use this section to calculate (a) the number of credits available in the current year, (b) the total number of credits which may be used in the current year to offset the excise — including the order in which the various types of credits are to be used, and (c) the number and status (limited or unlimited life) of credits that may be carried to subsequent years.

Column a

List the available credits from the appropriate supporting schedule on lines 13 through 26. Enter in line 27 the unlimited credit carryover from prior years (2000 Schedule H, line 44). These are credits earned in past years whose use was disallowed by the rule that only 50% of the excise may be offset by credits.

Column b

Credits should be used in the order of lines 13 through 26. This order will prevent the unnecessary lapsing of credits by giving priority to credits which lapse first.

Step 1. Start with line 13a and work downward, transferring the amount (or part thereof) on each line on column a to column b until all available credits are used **or** until the total transferred to column b equals the amount in line 12, **whichever occurs first.**

Step 2. Enter the amount from line 13b in line 8 of the excise calculation. Enter the total amount from lines 14b through 27b, less any amounts included in lines 17b and 26b, in line 9 of the excise calculation. Enter the amount from 17b in line 7 of the excise calculation. Enter the amount from line 26b in line 6 of the excise calculation.

Column c

Complete this column only if line 28a is more than line 12. Subtract column b from column a, lines 13–27, and enter the differences, if any, in column c.

Column d

Start with line 13c and work downward transferring the amount (or part thereof) on each line in column c to column d until all unused credits are transferred or the total transferred to column d equals the amount in line 29, whichever occurs first. Transfer any amount from lines 27c to 27d.

Schedule H-2. Credit Recapture

Recapture. If property is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the Investment Tax Credit, Brownfields Credit or the Economic Opportunity Area Credit taken and the credit allowed for actual use must be added back in Form 355, line 4 of excise calculation, as additional taxes in the year the property is disposed of. The amount of credit allowed for actual use is determined by this formula:

$$\text{Original credit} \times \frac{\text{Months of qualified use}}{\text{Total months of useful life}}$$

If the property has been in qualified use for more than 12 consecutive years, it is not necessary to add back the credit.

Line 9

If the taxpayer's records show that a portion or all of the original credit was never used to offset tax, the recapture tax may be reduced by the unused amount. To substantiate an amount in line 9 of Schedule H-2, taxpayers are required to complete and attach the Schedule H-2 Worksheet (Recapture Offset Worksheet) or to attach their own schedule, provided it performs the same calculations as the worksheet. The worksheet is available by visiting DOR's website at www.mass.gov/dor or by calling the Customer Service Bureau at (617) 887-MDOR.

For further information refer to DOR Directive 89-7.

Excise Calculation

The excise calculation schedule is used to calculate the various measures of the Massachusetts corporation excise. These are:

- a tax of \$2.60 per \$1,000 on taxable Massachusetts tangible property or taxable net worth, whichever applies. If the return is for a short taxable year, the tangible property or taxable net worth should be prorated; and
- a tax of 9.5% on income attributable to Massachusetts.

The law also provides for a minimum excise of \$456.

Line 15

Enter the total of lines 6 through 14. The sum of the credits listed in lines 6 through 9 and line 13 in any one taxable year is limited to 50% of the corporate excise. Unapplied credits may be carried forward. There is no carryback. Complete Schedule H to calculate the amount of each credit that may be used currently and the amounts that may be carried forward.

Line 19

Any corporation that wishes to contribute any amount to the Natural Heritage and Endangered Species Fund may do so on this form. This amount is added to the excise due. It increases the amount of the corporation's payment or reduces the amount of its refund.

Lines 28 and 29

The following penalties apply:

Penalty for underpayment of estimated tax. An additional charge may be imposed on corporations which underpay their estimated taxes or fail to pay estimated taxes. Form M-2220, Underpayment of Massachusetts Estimated Tax by Corporations, should be used to compute any underpayment penalty.

Penalty for failure to file. The penalty for failure to file a tax return by the due date is 1% of the tax due per month (or fraction thereof), up to a maximum of 25%.

Penalty for late payment. The penalty for failure to pay the total payment due with this form is ½% of the tax due per month (or fraction thereof), up to a maximum of 25%.

Any corporation which fails to pay its tax when due will be subject to interest charges.

Line 30

Enter the total payment due. Checks for this amount should be made payable to the Commonwealth of Massachusetts. Checks should have the corporation's federal identification number written in the lower left corner.

Signature

When the form is complete, it must be signed by the treasurer or assistant treasurer or, in their absence or incapacity, by any other principal corporate officer. The social security number of the signing officer should be entered next to the date the return was signed. If you are filing as an authorized delegate of the appropriate corporate officer, check the box in the signature section and attach a copy of Massachusetts Form M-2848, Power of Attorney. The form must also be signed by any paid preparer of the form. The form should be mailed to:

**Massachusetts Department of Revenue
PO Box 7005
Boston, MA 02204**

Department of Revenue Resources

DOR Locations in Massachusetts

19 Staniford Street
Boston 02214
(617) 887-MDOR.

218 South Main Street
Fall River 02721
(508) 678-2844

1019 Iyanough Road
Hyannis 02601
(508) 771-2414

333 East Street
Pittsfield 01201
(413) 499-2206

436 Dwight Street
Springfield 01103
(413) 784-1000

40 Southbridge Street
Worcester 01608
(508) 792-7300

DOR Locations throughout the Country

1355 Peachtree Street NE
Suite 1280
Atlanta, GA 30309
(404) 874-2922

101 South First Street, 4th Floor
Burbank, CA 91502
(818) 840-9059

150 North Michigan Avenue
Suite 2035
Chicago, IL 60601
(312) 899-9040

2603 Augusta Drive
Suite 1075
Houston, TX 77057
(713) 784-7225

1440 Broadway
Suite 2272
New York, NY 10018
(212) 768-2750

355 Fifth Avenue
Suite 1400
Pittsburgh, PA 15222
(412) 281-2776

What kind of help is available

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. If you have questions about completing your Massachusetts tax form, you can call or visit any of the Department of Revenue offices listed on this page Monday through Friday, between 8:45 a.m. and 5:00 p.m. Taxpayers also can call TaxTalk, the Department's 24-hour automated system of recorded tax help, at the main information lines listed below. In addition, DOR issues a number of useful publications on various state tax issues. These publications include: tax-specific guides written in question and answer format such as the *Guide to Filing Your 2001 Massachusetts Income Taxes*; a quarterly newsletter, the *Taxpayer Advisory Bulletin*, with updates on legislative, legal and Departmental decisions; and public written statements, such as Regulations, Technical Information Releases (TIRs), Directives and Letter Rulings.

Where to get forms and publications



During the income tax filing season, you can pick up Massachusetts personal income tax forms in many convenient locations, including post offices, libraries, and major city or town halls; any DOR office listed on this page; or IRS district offices across the state.



To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. Please note that many forms and publications are available 24 hours a day by calling the Department's automated forms request system at the numbers listed above.



Many Massachusetts tax forms and publications are available via the DOR website. The address for the Department's website is www.mass.gov/dor.



Certain forms and publications can be obtained through DOR's Fax on Demand system. For a complete Fax on Demand menu, please call (617) 887-1900 using the handset and the keypad on your fax machine.

For general tax information

Please call (617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089. These main information lines can provide assistance with the following:

- | | | |
|-------------------------|---------------------------|-------------------------|
| ▀ abatements | ▀ corporate trusts | ▀ partnerships |
| ▀ bills and payments | ▀ estate taxes | ▀ personal income taxes |
| ▀ business registration | ▀ estimated taxes | ▀ refunds |
| ▀ business taxes | ▀ fiduciary taxes | ▀ withholding |
| ▀ corporate excise | ▀ nonresident information | |

For help in one of the following specific areas

Please call the number listed below.

- | | |
|--|--|
| ▀ Certificates of Good Standing (617) 887-6550 | ▀ Installment sales (617) 887-6950 |
| ▀ Teletype (TTY) (617) 887-6140 | ▀ Small Business Workshop (617) 887-6400 |
| ▀ Vision-impaired taxpayers can contact any DOR office listed on this page to receive assistance. | |
| ▀ Upon request, this publication is available in an alternative format. Please send your request to: Office of Affirmative Action, PO Box 9690, Boston, MA 02114 or call (617) 626-3410. | |

To report allegations of suspected misconduct or impropriety involving Department of Revenue employees, please call the Inspectional Services Division's Integrity Hot Line at 1-800-568-0085 or write to PO Box 6040, Boston, MA 02114.

Massachusetts

Department of

Revenue

PO Box 7011

Boston, MA 02204

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Dear Taxpayer,

The Massachusetts Department of Revenue's website, www.mass.gov/dor is a comprehensive resource, providing businesses with the information needed to meet their tax obligations and other business requirements, 24 hours a day, seven days a week.

At www.mass.gov/dor, business owners can register as employers or vendors (or update their records with DOR), report newly hired employees, file meals and room occupancy taxes and make corporate quarterly income tax payments online. Businesses will also find fill-in tax forms where information can be entered online and then printed out for filing, and free software for filing and paying withholding, sales and use taxes via personal computer. Also available are Massachusetts tax forms, helpful publications, and links to unemployment insurance, workers' compensation, and other business-related information.

The site also provides information on the Department's Small Business Workshops. Offered regularly at various locations across the Commonwealth, these free workshops cover numerous topics of importance to new businesses, including registration, income tax withholding, estimated taxes, filing deadlines, sales, use and meals taxes, new hire reporting, certificates and exemptions.

As part of our continuing effort to make tax compliance easier, the Massachusetts corporate excise tax forms have recently been consolidated for use by both domestic and foreign corporations. The new forms include registration areas with domestic and foreign check-off boxes, and Schedule A has been revised.

For further information, please visit www.mass.gov/dor or call the Department's Customer Service Bureau at (617) 887-MDOR or toll-free in Massachusetts at (800) 392-6089.

Sincerely,



Bernard F. Crowley, Jr.
Acting Commissioner